INFORMED BUDGETEER

DEFICIT/SURPLUS PROJECTIONS: LET ME COUNT THE WAYS

- CBO's recently released analysis of the President's budget also included revisions to its baseline. The revised baseline included several sets of projections of federal budget deficits and surpluses.

- For the most commonly used and understood measure--the unified budget--CBO projects a baseline (assuming compliance with the discretionary caps) surplus of $8 billion in 1998, with continuing but fluctuating surpluses thereafter. A variation on this estimate is a freeze baseline, which simply freezes appropriations at the 1998 enacted level, and allows outlays to flow from those levels, without any adjustment for the discretionary caps. The deficit/surplus estimates under a freeze depart from the baseline projections only slightly.

- The fiscal picture of the U.S. budget can also be examined by removing the effects of deposit insurance programs, which have in the past been volatile and can distort underlying budget trends. But because deposit insurance activities have been relatively quiet, this deficit/surplus measure differs little from the baseline measure.

- Other cyclical economic factors, such as economic slowdowns, and other exchanges of assets, such as spectrum auctions, are removed from the standardized-employment deficit or surplus. Under this measure, the budget would not reach a surplus until 2001.

- Finally, the law requires a presentation of the on-budget deficit, which omits the effects of Social Security and the Postal Service on the total budget. Because annual social security revenues will continue to exceed outlays for a while, the on-budget measure remains in deficit over the projection period.

CBO Deficit/Surplus Projections
(By Fiscal year, $ in Billions)

	1997[A]	1998	1999	2000	2001	2002	2003
Baseline	-22	8	9	1	13	67	53
Freeze Baseline	-22	8	4	-4	15	65	69
w/o Deposit Ins.	-36	3	5	-1	11	65	52
Standardized Eplymt.	-80	-26	-48	-32	1	52	58
On-Budget Deficit[B]	-103	-92	-104	-121	-117	-72	-94

[A]1997 Actual; [B]Excluding Social Security and Postal Service. NOTE: Surplus (+), Deficit (-).

THE FY 1998 BUDGET THUS FAR

- In their March Monthly Budget Review, the Congressional Budget Office provided an overview of fiscal developments for the first five months of FY 1998.

- Revenue growth over 1997 levels has been very strong at 9.8 %, likely reflecting the continued buoyancy of the US economy and asset markets.

Receipts Through February
(By Fiscal Year, $ in Billions)

Major Source	Oct-Feb 1997	Oct-Feb 1998	% change
Individual Income	283.9	312.5	10.1%
Corporate Income	49.2	55.9	13.6%
Social Insurance	207.3	223.0	7.6%
Other	46.5	53.2	14.2%
TOTAL	**587.0**	**644.6**	**9.8%**

SOURCE: Congressional Budget Office, March 6, 1998.

- Yet, CBO expects revenue growth will slow to a 6.4 % pace for FY 1998 as a whole. After being surprised by large April tax liabilities last year, CBO believes taxpayers increased their withholding in 1997. This may have boosted revenue inflow in the early part of FY 1998, but could poach from year-end tax payments in April. Furthermore, an anticipated slowing of wage and profit growth should also negatively impact revenue growth going forward.

- More good YTD news has been seen on the outlay side, where overall growth has been limited to 3.7 %. Defense military spending is unchanged versus the same period 1997, while Medicare and Medicaid growth has been 0.7 percentage points slower than CBO's yearly forecast.

Outlays Through February
(By Fiscal Year, $ in Billions)

Major Source	Oct-Feb 1997	Oct-Feb 1998	% change
Defense-Military	108.0	108.0	0.0%
Social Security Bfts.	147.3	153.3	4.0%
Medicare- Medicaid	126.6	131.9	4.2%
Net Interest on Debt	103.5	103.8	0.3%
Other	191.5	205.0	7.0%
TOTAL	**676.8**	**701.9**	**3.7%**

SOURCE: Congressional Budget Office, March 6, 1998.

- CBO does expect outlay growth to pick-up somewhat during the rest of the year, boosting overall outlay growth to 4.4 % for all of FY 1998.

- The strong fiscal performance witnessed from October 1997 to February 1998 led CBO to alter its FY 1998 fiscal position forecasts in early March. They now look for an $8 billion FY 1998 surplus versus previous estimates of a $5 billion deficit.

UNEXPECTED UNEXPENDED BALANCES

- As part of the President's Budget Submission, OMB presents information on unexpended balances. Here's a little Budget 101 review on balances of budget authority.

- Unexpended balances are the sum of obligated and unobligated balances for both federal funds and trust funds.

- Unobligated balances are the amounts of budget authority that have not yet been obligated. Unobligated balances of budget authority are carried forward to the following year only when authority to do so, rather than lapse, is provided in law.

- Obligated balances are the amounts of obligations already incurred for which payment has not yet been made but will be required. Obligated balances are carried as such until the obligations are paid for or the authority is canceled.

- For most government accounts, the time between the enactment of appropriations, the obligation of funds, and the related outlays is relatively short. For annual accounts, appropriations are made available for only one year and any unobligated amounts expire at the end of that fiscal year. Obligated (but not paid) portions of the expired appropriations are carried for five years, after which the balances are permanently canceled.

- If Congress enacts appropriations or budget authority without a specified number of years, usually until the objectives of the program have been achieved (no-year authority), then the unobligated balances are carried forward. No -year authority may be canceled by the agency head or the President if the purpose of the funds have been carried out.

- When the budget authority of multi-year funds expire, the obligated (but not paid) funds are carried forward for five fiscal years after which the balances are permanently canceled.

Unexpended Balances by Agencies
($ in billions, End 1997/ Start 1997)

	obligated	unobligated

Legislative Branch	0.6	1.5
Judicial Branch	0.4	0.7
Dept. of Agriculture	39.9	6.1
Dept. of Commerce	3.6	0.5
Dept. of Defense-Military	145.8	27.0
Dept. of Education	26.0	2.8
Dept. of Energy	7.6	3.1
Dept. of HHS	64.2	9.8
Dept. of HUD	121.2	41.7
Dept. of the Interior	3.1	4.7
Dept. of Justice	10.5	3.3
Dept. of Labor	5.2	10.5
Dept. of State	1.5	0.6
Dept. of Transportation	47.4	6.1
Dept. of the Treasury	21.4	25.5
Dept. of Veteran's Affairs	7.1	14.8
Corps of Engineers	0.3	2.4
Other Defense Civil Programs	2.6	0.1
Environmental Protection Agency	10.1	2.3
Executive Office of the President	*	*
FEMA	5.6	3.9
General Services Administration	0.7	4.0
International Assistance Program	61.4	34.3
NASA	5.7	1.0
Nationals Science Foundation	3.6	*
Office of Personnel Management	4.2	24.1
Small Business Administration	1.0	0.9
Social Security Administration	36.7	1.6
Other Independent Agencies	33.0	61.7
TOTAL	**670.7**	**295.0**
Federal Funds	534.2	247.3
Trust Funds	136.5	47.7

*less than 50 million.

PRESIDENT'S BUDGET VIOLATES THE DISCRETIONARY CAPS

- On March 4, OMB Director Raines sent the Budget Committees a draft resolution that reflected the President's budget.

- According to the Congressional Budget Office (CBO), the President's budget would exceed the statutory caps on discretionary outlays by $12 billion in 1999.

- Section 312(b) of the Congressional Budget Act prohibits consideration of a budget resolution that would cause the discretionary caps to be exceeded. As a result, the President's budget would violate the Budget Act and be subject to a 60 vote point of order in the Senate.

- Why is the President's budget over the caps? One reason is the President attempts to use $31 billion in tax revenues over the next four years to offset discretionary spending.

- OMB claims that the budget law allows revenues to offset discretionary outlays for the purposes of determining compliance with the caps and asserts this in its March 4th letter that CBO has scored revenue offsets to appropriation bills in 47 instances.

- The Budget Committee contacted CBO about OMB's allegation and CBO replied with the following in a March 12th letter to Budget Committee Chairman Domenici:

  "Despite the assertion in the materials provided to you by the Office of Management and Budget (OMB), CBO has never counted a projected change in governmental receipts (revenues) as an offset to discretionary spending for the purposes of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act)."

CBO TO EXAMINE STUDENT LOAN INTEREST RATES

- In a March 11, letter to Congressman Goodling, June O'Neill stated that CBO is in the process of completing an analysis of the Administration's proposal to modify the interest rate formula in the federal direct and guaranteed student loan programs. She went on to state that CBO has not yet determined the rates of return that private lenders would earn under the proposal, or what rate of return would be required to maintain their participation in the program. This letter was in response to a Congress Daily article claiming that CBO concurred with the Department of Treasury analysis on the subject.

- The letter concluded that CBO is examining the effects of alternative interest rate formulas on lenders' rates of return and that they hope to have preliminary report completed by April.

- In a related matter, a March 11 letter to Chairman Domenici, CBO provides a cost estimate for a potential change in the interest rate formulas in federal student loan program. This cost estimate is based on the Department of the Treasury study, The Financial Viability of the Government -Guaranteed Student Loan Program, which the *Bulletin* reviewed on the March 2nd.

- The table below shows the estimated budgetary effects for substituting the Treasury's alternative formula for that scheduled under current law. It also shows the estimate taking into account how fluctuations in interest rates in relation to the cap on borrowers interest rate and their effect on the subsidy cost of student loans.

Estimated Cost or Savings of Proposed Change to the Student Loan Program
(By Fiscal Year, $ in millions)

	1998-2003	1998-2008
Budget Authority	1,015	2,030
Outlays	875	1,775
W/out Federal Cost of the Cap[A]		
Budget Authority	-1,730	-3,655
Outlays	-1,460	-3,190

[A]Estimate excluding changes in the federal cost of the cap on borrower's interest rates.

- Also included in CBO's estimate is the Treasury proposal's effect on borrower interest rates and lender yields for Student Loan Programs. The following is a summary of that table.

- Interest rates while students are in school, grace period or deferment would be the 91 day Treasury bill rate plus 1.7%. During this period of time the interest rate received by private lenders is the same.

- Repayment interest rates for students would be the 91 day Treasury bill rate plus 2.3%. Interest rates received by private lenders during repayment would be the same.

- Student interest rate caps would remain at 8.25% for students.

CALENDAR

March 17: Senate Budget Committee mark-up of FY 1999 Budget Resolution. Dirksen 608, 11:00 pm. (Tentative)